

43007

0953

23589



DIRECTORATE OF
INTELLIGENCE

Confidential

CIA|SOV-----|SEG 90-001-----

Mono

Annual Bulletin on Soviet Economic Growth

JANUARY-DECEMBER 1989

CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
1999

Confidential

SOV SEG 90-001
March 1990
Copy

Warning Notice

**Intelligence Sources
or Methods Involved
(WNINTEL)**

**National Security
Information**

**Unauthorized Disclosure
Subject to Criminal Sanctions**

Dissemination Control Abbreviations	NOFORN (NF)	Not releasable to foreign nationals
	NOCONTRACT (NC)	Not releasable to contractors or contractor/consultants
	PROPIN (PR)	Caution—proprietary information involved
	ORCON (OC)	Dissemination and extraction of information controlled by originator
	REL...	This information has been authorized for release to...
	WN	WNINTEL—Intelligence sources or methods involved

A microfiche copy of this document is available from OIR/
DLB (482-7177); printed copies
from CPAS/IMC (482-5203;
or AIM request to userid
CPASIMC). Regular receipt of
DI reports can be arranged
through CPAS/IMC.

All material on this page
is Unclassified.

0555



Directorate of
Intelligence

~~Confidential~~

Annual Bulletin on Soviet Economic Growth

January-December 1989

This bulletin was prepared in the
Office of Soviet Analysis, with
contributions from

Comments and queries are welcome and may be
directed to
SOVA, or

Reverse Blank

~~Confidential~~
SOVSEG 90-001
March 1990

8556

Confidential

Contents

	<i>Page</i>
Overview	1
Industry	3
Agriculture	6
Consumption	9
Investment	12
Defense	14
Foreign Trade	16
The Government's Economic Program	19

8957

Confidential



Confidential

0558

Confidential

Annual Bulletin on Soviet Economic Growth

Overview

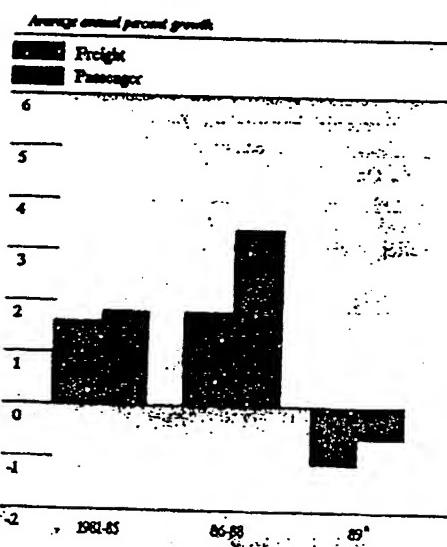
Economy Slumps Badly in 1989

Soviet economic problems worsened and multiplied in 1989. According to our preliminary estimates derived from Soviet data, industry, construction, and transportation failed to grow, and, although agricultural output increased, it marked a rebound from a two-year decline. More important, the imbalance between consumer demand and supply became more acute as growth in money incomes far outstripped increases in the output of consumer goods and services. We estimate that overall production increased by about only one-half of 1 percent per capita, but widespread transportation and distribution problems made economic conditions worse than the growth statistics indicate.

Record losses of worktime—resulting from strikes, ethnic disturbances, and a general decline in incentives to work—bore a major share of the blame for the economy's poor showing. In addition, reforms introduced during the past few years probably intensified the economy's problems; the weakening of central planners' control over the economy that resulted from these reforms has not been offset by a strengthening of genuine market forces.

The widespread breakdowns in transportation and distribution that occurred last year resulted from a mixture of old and new problems. After years of being "undersupplied" with needed equipment and facilities, the railroad system has been pushed to the limit of its capacity. In 1989, disruptions from the Armenian blockade, slowdowns by workers engaged in loading and unloading, and a surge in demand for rail shipment of imported food and consumer goods combined to cause massive railroad bottlenecks, creating what

Figure 2
USSR: Growth of Rail Freight and
Passenger Transportation



*Preliminary estimate.

the national media described as a "transportation emergency." Meanwhile, declining confidence in the ruble led to hoarding and panic buying and played havoc with wholesale, as well as retail, trade. Regional officials refused to ship food and consumer goods to other areas to avoid local discontent.

0559

~~Confidential~~

The government responded to these problems by passing a series of "emergency" measures, which culminated in December with the legislature's approval of a comprehensive program designed to stabilize the economy and reimpose central controls (see section titled "The Government's Economic Program"). In our judgment, however, the government's program as presently constituted is likely to fall well short of its target. Indeed, given the depth and breadth of its problems, the Soviet economy could go into decline this year, particularly if the system is shocked in some way—for example, by a nationwide strike in key economic sectors or by severe and widespread unrest. Soviet officials are clearly mindful of such prospects and are describing the economy in ever more pessimistic terms. One high-level official recently observed that five years of effort to replace stagnation with *perestroika* have succeeded only in creating "the stagnation of *perestroika*."

~~Confidential~~

0560

~~Confidential~~

Industry

Strikes and Bottlenecks Stall Progress

Soviet industry failed to grow in 1989—its worst performance in the postwar era. The state statistical agency cited a decline in labor discipline, record losses of worktime—the equivalent of 140,000 workers off the job each day—and interruptions of supplies as the major reasons for industry's poor showing. According to the agency's yearend report, supply problems were aggravated by "excessive concentration and monopolies" throughout industry. Output of diesel locomotives fell, for example, largely because of shortfalls in deliveries by the only manufacturer of crucial electrical parts. Transportation bottlenecks were also responsible for many of the supply disruptions to industrial enterprises.

Leading the downturn was the energy sector; for the first time since the 1940s total energy production fell compared with the previous year. Oil output fell about 2.5 percent; major producing regions have peaked or are in decline, and the Soviets lack the technology needed to exploit new areas, such as the North Caspian Basin and the Barents Sea. Largely because of miners' strikes, coal production also fell off for the first time since 1984. Natural gas output posted its smallest increase in more than a decade. Producers were plagued by supply constraints, inadequate investment in new pipelines, and escalating maintenance costs.

Most materials-producing branches also performed poorly last year—a development that had a ripple effect, dragging down the performance of producers who relied on them for essential inputs. We estimate that overall output of chemicals declined by 2.5 percent, compared with an increase of over 2 percent the previous year. Output of many metals also declined after posting healthy gains the year before, and production of many types of construction materials dropped off.

Figure 3
USSR: Growth of Total Industrial Production

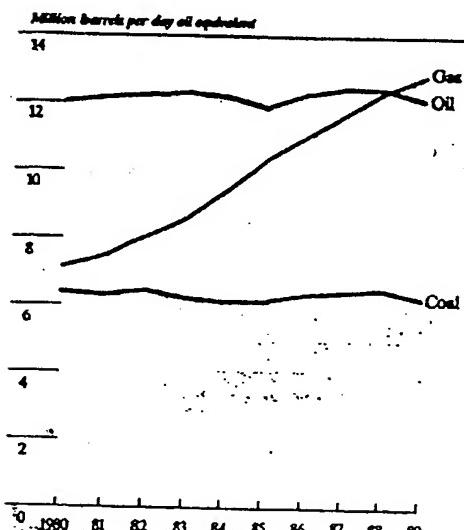


Despite heavy investment in the machine-building industries during the past few years, overall machinery output registered no growth in 1989. Press reporting indicates that many producers fulfilled their plans by shifting the mix of output in favor of higher profit items and raising prices. Production of durable consumer goods increased, but machine builders failed to meet the leadership's ambitious targets for big-ticket items such as major household appliances. Passenger car output declined in absolute terms. According to the government's yearend report, the machine-building industries still are not meeting the regime's needs for more and better equipment to modernize Soviet

0561

~~Confidential~~

Figure 4
USSR: Production of Major Fuels



factories and farms. Machinery producers were even criticized for the slow pace at which modernization is taking place in their own industry.

The news was little better in the critical consumer industries. Light industry grew by only about 1 percent last year, despite high consumer demand. Calculated from data in physical terms, growth rates for most major categories of light industry products were lower than in 1988. According to press reporting, clothing and footwear for children and the elderly all but disappeared from store shelves last year. Although production of processed foods rose substantially in statistical terms, more than three-quarters of the increase was due to a sharp rise in alcohol production.

~~Confidential~~

0562

~~Confidential~~

Table 1
USSR: Industrial Growth by Branch, 1981-89

	Average Annual 1981-85	1986	1987	1988	1989	Percent
Industry	2.0	2.5	3.1	2.9	0.2	
Industrial materials	2.1	4.0	2.4	2.6	-0.6	
Ferrous metals	0.8	3.4	1.4	2.0	-0.5	
Nonferrous metals	2.0	3.0	1.9	3.5	0	
Chemicals	3.8	4.8	2.7	2.2	-2.5	
Wood products	1.9	4.5	2.2	3.2	0	
Construction materials	1.8	4.0	3.6	2.5	0.9	
Energy	1.8	3.4	2.9	1.9	-0.6	
Fuel	0.8	3.3	1.9	1.4	-2.0	
Electric power	3.1	3.6	4.1	2.4	1.0	
Machinery	2.0	2.6	3.8	3.5	0	
Consumer nondurables	1.7	-1.8	2.7	3.3	3.1	
Light industry	1.6	1.4	1.7	2.4	1.2	
Food industry						
Including alcohol	1.8	-4.7	3.6	4.1	4.8	
Excluding alcohol	2.2	4.5	2.6	1.3	1.1	

Table 2
**USSR: Growth of Selected Categories
of Soft Goods in Physical Units**

	Average Annual 1981-85	1986	1987	1988	1989	Percent
Textiles (billion square meters)	2.3	2.1	3.3	2.7	0.6	
Knitwear (billion articles)	1.3	2.5	3.2	3.2	1.7	
Leather footwear (billion pairs)	1.2	1.6	1.0	1.2	1.0	
Hosiery (billion pairs)	2.7	3.1	3.9	3.1	0.1	

0563

Confidential

Agriculture

Production Turns Up but Food Shortages Persist

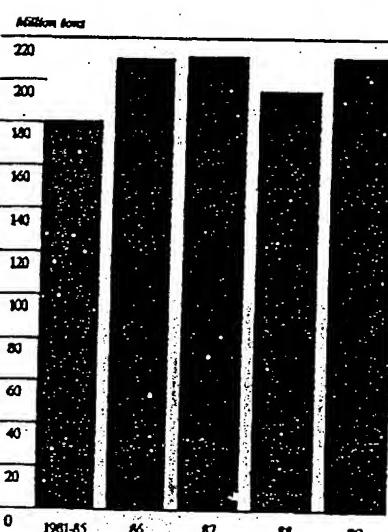
Aided by favorable weather, Soviet agricultural production reversed a two-year downturn last year. After falling by 15 million tons in 1988, grain production increased to 211 million tons—about the same as in 1986 and 1987, the last good grain years. Production of sunflower seed reached a new high, and sugar beet and potato crops were up substantially.

In the livestock sector, production of meat increased by nearly 2 percent. Inventories of cattle, sheep, and goats declined, however, and are now at their lowest levels in six years. Because production of hay, silage, and other roughage crops, which account for nearly three-fifths of animal feed, also declined in 1989, Soviet farms will be hard pressed to meet targets for increasing meat production this year.

The overall increase in farm output last year was not large enough to have a substantial impact on the availability of retail food supplies in the USSR. Instead, food shortages have increased and, reportedly, are lasting longer. Soviet commentators attribute part of the current situation to rapid growth in money incomes over the past two years, which, when combined with low retail prices, has sharply stimulated growth in demand for higher quality foods such as meat, dairy products, and fruit. To cope with the excess demand, local officials have instituted rationing, which, in turn, has led to more under-the-counter sales, theft, black-market activity, and hoarding. As a result, less food is available through traditional state stores. Escalating transportation bottlenecks are also causing massive waste and long interruptions in food supplies and contributing to breakdowns in interregional trade.

The regime convened a party plenum in March 1989 to focus on the USSR's longstanding difficulties in supplying the population with a diet comparable to

Figure 5
USSR: Grain Production



that in the West. The program that was adopted, which calls for increased farm production and reduced waste, is an amalgam of traditional remedies—such as supplying farms with better machinery and more and better agrochemicals—and more radical measures designed to:

- Restore a sense of land ownership to farmers through expanded leasing.
- Streamline the bloated agricultural bureaucracy by decentralizing the management of farm

Confidential

0564

~~Confidential~~

Figure 6
USSR: Meat Production

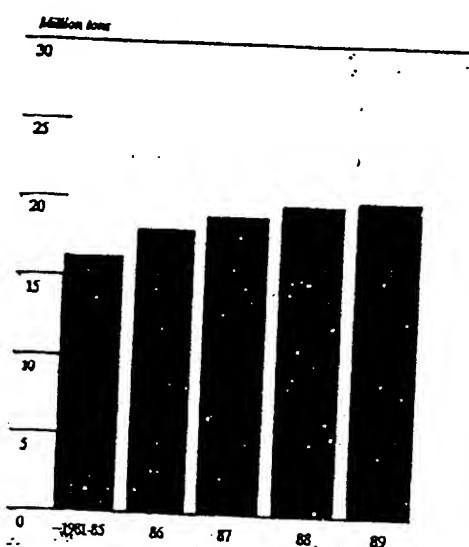
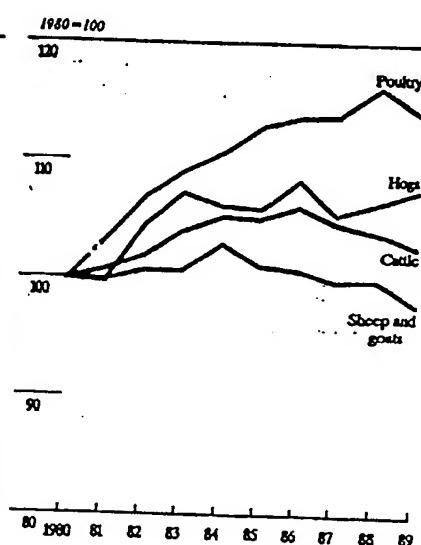


Figure 7
USSR: Livestock Inventories



Unfortunately for the Soviet consumer, these measures are already stalled. Farm managers and local officials have been reluctant to give farmworkers more autonomy, and sufficient guarantees to protect leaseholders' rights are not yet in place. Many of the central agricultural bureaucracy's administrative functions—determining the allocation of resources, setting procurement prices, and deciding orders for agricultural products—have merely been transferred to other central agencies.

0565

~~Confidential~~

Table 3
USSR: Production of Selected Farm Products

*Million metric tons
(except where noted)*

	Annual Average 1981-85	1986	1987	1988	1989
Crops					
Grain	180.3	210.1	211.4	195.0	211.1
Potatoes	78.4	87.2	75.9	62.7	72.0
Sugar beets	76.4	79.3	90.7	87.9	97.5
Sunflower seed	5.0	5.3	6.1	6.2	7.0
Cotton	8.3	8.2	8.1	8.7	8.6
Vegetables	29.2	29.8	29.2	29.3	28.5
Livestock products					
Meat	16.2	18.0	18.9	19.7	20.0
Milk	94.6	102.2	103.7	106.8	108.1
Eggs (billions)	74.4	80.7	82.7	85.2	84.6

~~Confidential~~

0566

Confidential

Consumption

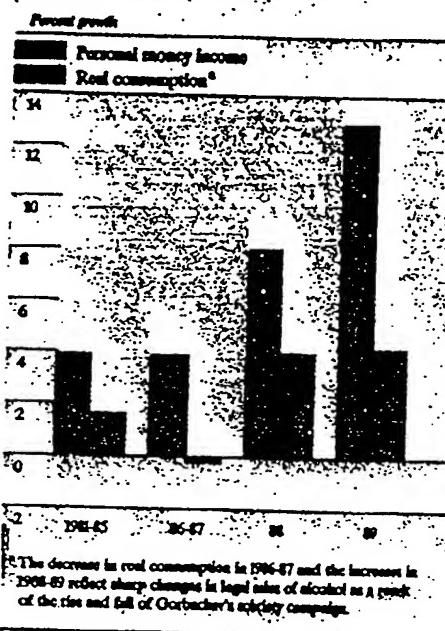
Imbalance Between Supply and Demand Worsens

Despite Moscow's efforts to increase supplies of consumer goods and services—which have resulted in some limited success—daily life became much harder for Soviet consumers in 1989:

- Even in state-run stores, where price controls are supposedly in force, prices increased by an estimated 6 percent—the highest rate since 1950.
- Empty shelves in state stores forced consumers to turn increasingly to the black market and to new cooperative enterprises, where prices are often several times higher, to meet their shopping needs.
- According to a Soviet survey, meat and sausage were rationed in one-fifth of the major cities, and soap, detergent, and sugar were rationed in most or all of the country.
- The Soviets also reported during the year that electrical appliances, such as televisions and radios, were in short supply and that lines for clothing and shoes became longer.

As Gorbachev recently complained, the consumer crisis is due primarily to the explosion in consumer demand resulting from Moscow's abandonment of its conservative approach to fiscal and monetary policies. Large budget deficits—amounting to over 10 percent of Soviet GNP last year and financed largely by government fiat—have contributed to rapid increases in money incomes that have far outstripped the growth in the availability of goods and services. According to official Soviet statistics, personal money incomes increased by 13 percent in 1989—about three times as great as the estimated increase in consumer goods and services.

Figure 8
USSR: Growth in Personal Money Income Versus
Growth in Real Consumption*



*The decreases in real consumption in 1986-87 and the increases in 1988-89 reflect sharp changes in legal rates of alcohol as a result of the rise and fall of Gorbachev's anti-alcohol campaign.

As income growth outpaced consumption growth, inflationary pressures increased, driving up prices in markets not subject to effective central control and forcing people to accumulate money they probably would have preferred to spend. Savings deposits in banks increased by 14 percent, and cash holdings reportedly rose rapidly. Soviet officials estimated that

70567

Confidential

Figure 9
RUSSIA: Selected Indicators of Consumer Welfare

Indicators	Performance Measures ^a				Popular Perception ^b	
	1986	87	88	89	88	89
Meat	△	△	△	△	●	●
Vegetables and fruits	○	●	●	●	●	●
Durable goods	△	●	△	△	△	●
Automobiles	●	△	●	●		
Home electronics	△	△	●	●		
Clothing	△	△	△	△	△	●
Personal care and repair services	△	○	○	○	△	●
Housing	△	○	○	△	△	●
Health care	●	○	○	○	△	●
Leisure and recreation	●	△	△	△	○	△
Inflation						
Rationing ^c		△	△	●	●	●
Working conditions	○	●	●	NA	●	●
Protection of the environment	△	△	○	△	●	●

- Improvement
- △ No significant change
- Deterioration
- NA Not available

^a Performance is measured by comparing an indicator's rate of growth with the growth rate achieved during 1981-85, the five-year period that preceded the Gorbachev era.

^b Based on CIA analysts' judgments of Soviet citizens' perceptions of how living standards have changed under Gorbachev compared with the period 1981-85.

^c No performance measures are included for this indicator because we lack sufficient data on performance during the baseline period, 1981-85.

0568

Confidential

*Excerpt from speech to the All-Union Conference of
Representatives of the Working Class, Peasantry,
and Engineering and Technical Workers*

During this Five-Year Plan, more funds have been channeled into the construction of housing and cultural and welfare amenities . . . Soviet families have more socioconsumer durables: 70 percent and 30 percent more color televisions and tape recorders, respectively. There are more automobiles, refrigerators, and so on. . . . So the question arises—Why are these goods not in evidence in the stores? . . . Why are the shortages not only not decreasing, but getting worse? . . . The current situation is attributed to a decisive degree to the fact that there has been a landslide increase in monetary income in our country over the last two years.

*Mikhail Gorbachev
18 January 1990*

unsatisfied consumer demand amounted to a huge 165 billion rubles—roughly 40 percent of the annual value of retail sales. If price controls were removed or relaxed, this excess purchasing power would lead to a sharp increase in prices.

0569

Confidential

Investment

Construction Backlogs Lengthen

Moscow's original economic plan for 1989 called for investment growth to slow to about 2 percent, but centralized funds for investment were subsequently cut in an effort to reduce the budget deficit. As a result, according to official Soviet data, investment spending increased only slightly—by about one-half of 1 percent.

Despite the decline in investment growth, completions of new investment projects fell, and the backlog of unfinished construction rose sharply. Overall, only half the state-ordered investment projects scheduled for completion last year were actually finished. Additions to production capacity fell far below plan in the vital fuel-energy complex.

The much-publicized effort to shift more investment to the "nonproductive" sphere paid few dividends. Despite higher spending on housing and other social-cultural investment, fewer projects were completed in 1989 than the year before. In addition, although the housing stock increased by approximately 3 percent, plans for the completion of new housing space were not met for the first time since 1985. According to Soviet figures, one-fifth of urban families living in public and cooperative housing in 1989 were waiting for better accommodations, and nearly one-fifth of those families had been waiting for more than 10 years. Plans for the completion of new schools and health care facilities also were undersupplied.

According to the government's plan fulfillment report, shortfalls in the supply of materials were a major cause of the construction sector's inability to bring more projects to completion. Projects also were delayed in many instances because needed machinery was not delivered on time. As more investment spending is being financed by enterprise funds, central



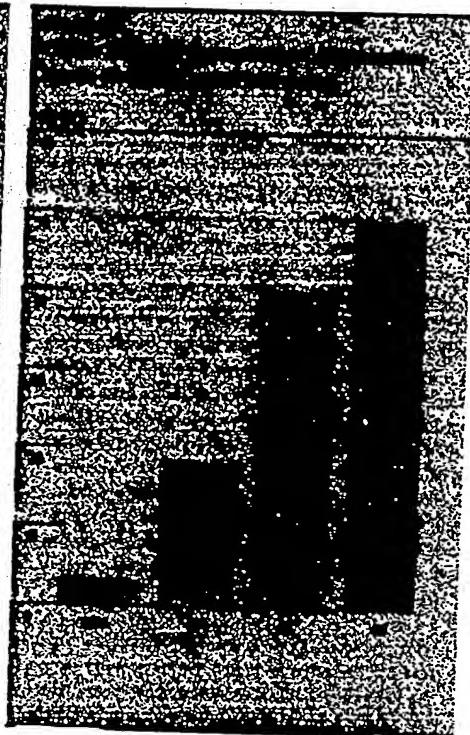
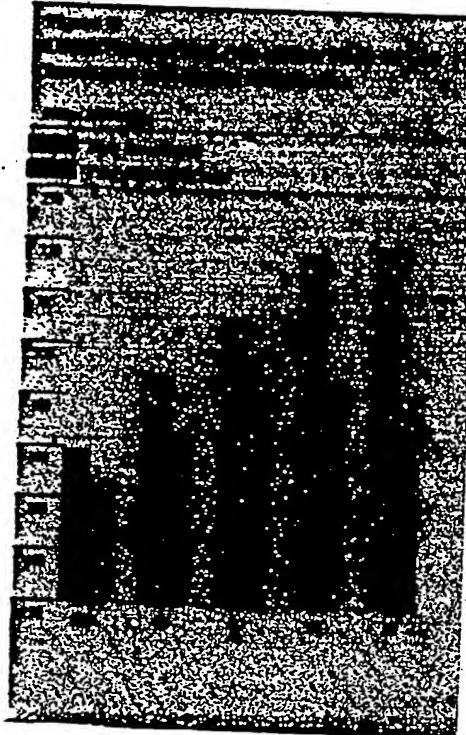
control over the startup of new projects has weakened; this has contributed to an increase in the number of new construction projects and to the worsening backlog of unfinished construction.

The lagging performance of the construction sector itself, in large part due to the confusion caused by the shift of construction organizations to self-financing, also contributed to the Kremlin's failure to complete scheduled investment projects. The Soviets reported that last year one in three construction projects was

Confidential

0570

~~Confidential~~



rejected by government inspectors as defective. Construction firms still take so long to complete projects, moreover, that the technologies and designs incorporated in the "new" facilities often are outmoded before the projects are brought on line. A government commission has been appointed to find solutions to Moscow's construction problems and to review the government's overall investment strategy

DSR

Confidential

Defense

Shifting Resources to the Civilian Economy

Preliminary CIA estimates indicate that Soviet defense spending, adjusted for inflation, decreased last year as the Soviets began a major program to reduce their military forces and use freed-up defense resources to boost civilian output. A decline in procurement of roughly 7 percent accounts for the biggest part of the downturn, with the largest absolute cuts concentrated in general purpose forces. The Soviets roughly halved their production of tanks and halted production of some older general program weapons. Outlays for strategic forces declined slightly, primarily because of the downturn in bomber production. Spending for military space programs decreased as well. Military manpower reductions and the retirement of old equipment also led to some decrease in personnel and operations and maintenance costs.

The Soviets were hoping to use the production capacity freed by the cutbacks in defense to provide support for the struggling civilian economy. Last year, Moscow established ambitious production targets for the defense industries in 10 priority areas and indicated that more than 400 plants and 205 research organizations had increased work for the civil sector. According to statements by Soviet officials, the efforts met with some limited success: official statistics show that the production of consumer goods by the defense industries increased by 11 percent in 1989, although most of the increase took the form of higher prices.

Overall, however, we believe that the program to convert military production facilities to civilian production got off to a slow start in 1989. The leadership failed, for example, to meet its self-imposed goal of releasing a comprehensive conversion program for 1991-95 by the end of the year (it was finally released in March 1990), apparently because of disagreement within the government over what this program should entail. Much of what the Soviets described as defense



Establishing 10 Priority Areas

*Consumer goods
Light industry
Food processing
Trade and public catering
Medical equipment
Electronics
Computers
Communications equipment
Fishing and maritime fleets*

Confidential

0502

~~Confidential~~

Soviet Officials Comment on Conversion

"The conversion process is not as simple as many people believe. You cannot say: stop building tanks today, and tomorrow start producing, for instance, machinery for the textile industry."

—*Vitaliy Shabanov*
Deputy Minister for Defense for
Armaments
August 1988

"It must be conceded that not everything is going smoothly."

—*Igor Belousov*
Chairman of the Council of
Ministers Military-Industrial
Commission
August 1988

"Of course the defense plants may make coffee mugs, bread slicers, dishwashers . . . but . . . when we allocate these trifles to the defense sectors and speak about conversion, this is entirely wrong. We are . . . damaging the national economy, squandering a complex intellectual system on trifling matters. . . . The enterprise should manufacture civilian products in keeping with its profile. We have in our haste forgotten this simple truth."

—*M. P. Simonov*
Aircraft designer
January 1990

"Conversion is very expensive. A video recorder produced at a defense industry enterprise costs two or three times more than one produced at a specialized civilian enterprise. There will be an increase in output but there will also be an increase in expenditure. It is important to consider all this."

—*P. G. Buntch*
Economist
December 1989

industrial conversion last year consisted mostly of using diverted material and labor resources to increase civil output on existing production lines. The Soviets have completely converted only a handful of manufacturing lines and have not yet converted or closed any major defense plants.

The conversion effort suffers from lack of central direction; responsibility for its planning and implementation is splintered among the State Planning Committee, the Military-Industrial Commission, the Supreme Soviet, and the military. In some instances, defense plant managers have been instructed to increase civil output but have not been given either detailed guidance or additional resources for retooling. Their difficulties have been compounded by ongoing economic reforms. Supply networks have been disrupted, for instance, by the introduction of wholesale trade in investment goods, and for most of last year the ministerial bureaucracies to which plant managers traditionally turned for support were preoccupied with their own restructuring.

DS73

Confidential

Foreign Trade

Import Surge Raises Hard Currency Debt

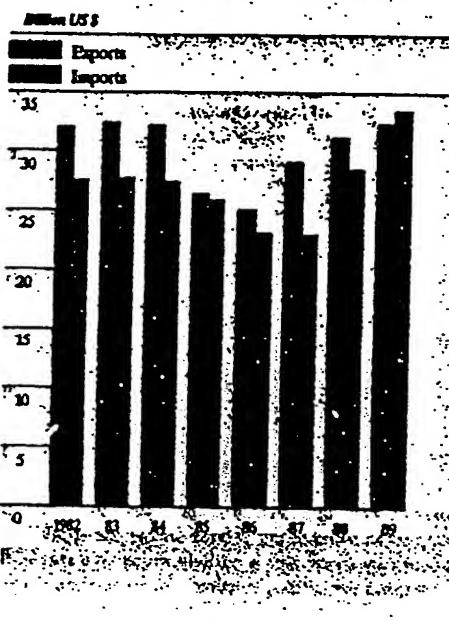
A surge in Soviet imports last year led to a rare deficit in the USSR's hard currency balance of trade. Hard currency imports jumped by an estimated 18 percent, following a leap of nearly 25 percent the previous year. Purchases of food, manufactured consumer goods, and equipment for light industry increased. Meanwhile, hard currency exports, which increased by just 4 percent, failed to keep pace, partly because oil deliveries were about 200,000 barrels per day below the 1988 level. As a result, the balance of Moscow's hard currency trade dropped from a record \$6 billion surplus in 1987 to a \$1 billion deficit last year.

To finance the deficit and cover other necessary expenses such as debt servicing, Moscow stepped up its borrowing abroad in 1989. Soviet hard currency debt rose to about \$47 billion at the end of 1989—more than double what it had been in the mid-1980s.

The growing size of the debt, together with the increasing problems in the domestic economy, has raised concern on the part of some Western lenders about the USSR's creditworthiness. Despite Moscow's sizable assets and gold reserves valued at about \$28 billion, Western bankers are tightening credit and charging higher interest rates, according to a variety of sources. The oversupply of Soviet commercial paper to finance imports last year contributed to the upward pressure on lending rates.

Despite the recommendation of some Soviet economists—most notably Nikolay Shmelev—that Moscow borrow more heavily to finance sharp increases in imports, the leadership is not likely to take further steps in this direction, at least in the near term. Last December the Congress of People's Deputies adopted

Figure 14
USSR: Hard Currency Exports and Imports



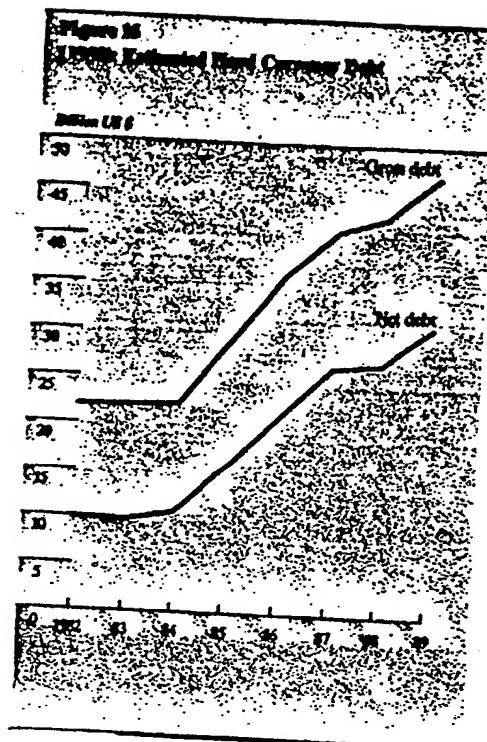
a measure calling for a reduction of the USSR's foreign debt. Although Soviet officials probably will carry through with planned increases in imports of consumer goods this year, leadership speeches indicate that the purchases will be financed mostly by cutting back imports of goods such as heavy machinery and other industrial products.

Meanwhile, the Kremlin is having difficulty absorbing the large volume of consumer goods imported last year. Distribution networks are overburdened, and

Confidential

0574

~~Confidential~~



imported equipment worth billions of dollars, much of which is destined for consumer industries, is sitting idly by waiting to be delivered or installed.

The Soviets currently are debating whether to establish free economic zones and to liberalize their joint-venture legislation as a means of generating more hard currency revenues. In our judgment, Moscow is likely to have little success any time soon in generating new revenues because it has not made the domestic reforms needed to attract substantial foreign investment and to improve the USSR's trade competitiveness.

05/75

~~Confidential~~

Table 4
USSR: Estimated Hard Currency Balance of Payments

Million current US \$

	1985	1986	1987	1988	1989
Current account balance	137	1,383	5,116	1,172	-2,915
Merchandise trade balance	519	2,013	6,164	2,647	-1,100
Capital account balance	5,117	5,116	4,238	-827	1,685
Net change in debt	6,804	6,811	5,011	1,990	4,120
Net change in assets	1,787	1,595	-527	1,119	435
Net credits to the LDCs	1,700	4,100	4,800	5,500	5,665
Gold sales	1,800	4,000	3,500	3,802	3,665
Net errors and omissions *	-5,254	-6,499	-9,355	-345	1,230

* Includes Soviet hard currency aid to and trade with other Communist countries, trade credits extended to finance Soviet exports to developed countries, and other nonspecified hard currency expenditures, as well as errors and omissions in other line items of the accounts.

~~Confidential~~

DS78

Confidential

The Government's Economic Program

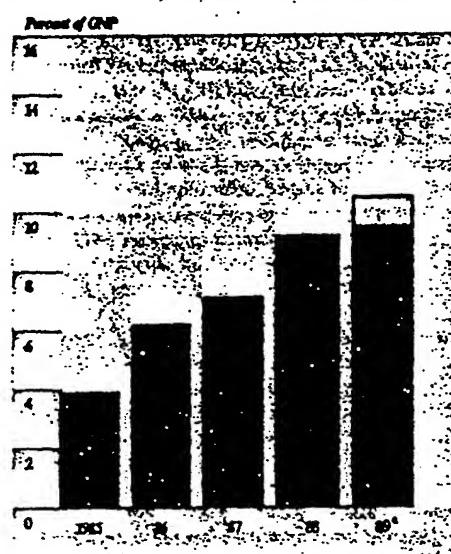
Financial Stabilization Takes Precedence Over Reforms

To deal with the economy's mounting problems, last December the Congress of People's Deputies approved a major economic program designed to stabilize the consumer economy by the end of 1992 and to make it possible to proceed with the implementation of market-oriented reforms. The government's program includes the following:

- A sharp increase during 1990-92 in the availability of consumer goods and services.
- Measures to slow the growth of the money supply, cut the budget deficit, increase voluntary savings by enterprises and individuals, and thereby stem the rapid increase in consumer demand.
- The sale of no-interest warrants—which would guarantee the purchasers priority access to automobiles and other scarce consumer durables in 1993—and of some state assets, such as housing and land for dachas, to soak up excess consumer purchasing power.
- Use of direct administrative measures such as expanded mandatory state orders, harsher penalties for failure to fulfill state orders or contract commitments, limits on the ability of enterprises to export items in short supply, and direct controls over wage and price increases.

The government's program contains major flaws that, in our judgment, will not only severely limit its effectiveness but could also give rise to new and serious problems. Given the backward state of Soviet consumer industries and their production record in recent years, for instance, the ambitious goals for increasing production during 1990-92 probably are out of reach. Increases in revenues—the major vehicle for reducing the deficit—are likely to be much less than those projected by Moscow. Given the pressure to spend more for social programs, such as schools and

Figure 16
USSR: Estimated State Budget Deficit



The range in the 1990 estimate reflects uncertainty about the success of announced Soviet measures to reduce the deficit.

Table 5
USSR: Planned Growth Rates for the Production of Consumer Goods and Services

	1986-90 Plan	1986-89 Actual*	1990 Plan ^b	1991-95 Plan
Total consumer goods	4.9	1.8	18	8-9
Of which:				
Food	3.5	1.9	10	6-7
Nonfood	5.9	1.8	23	10-11
Paid services	8.4	3.7	13	10-11
Housing construction	1.7	3.2	12	7

* CIA estimates.

^b Plan for 1990 over estimated actual 1989 level.

0577

~~Confidential~~

USSR: Politburo Lineup on Economic Reform

Radical Reformers

General Secretary Gorbachev, International Policy Commission Chairman Yakovlev, Foreign Minister Shevardnadze, Ideological Commission Chairman Medvedev—less concerned with the nuts and bolts of economic policy, this group takes a visionary approach to the grand directions of economic reform based on sweeping decentralization. They advocate:

- *Price reform sooner rather than later.*
- *Promotion of private entrepreneurship in the form of cooperatives and leased enterprises and farms.*
- *Removing the government and party apparatus from day-to-day oversight of the economy.*

Moderate Reformers

Premier Ryzhkov, state planning Chief Maslyukov, Socioeconomic Policy Commission Chairman Slyus'kov. Charged with implementing economic policy and held accountable for economic performance, members of this group, while strongly supportive of reform, are concerned rapid change will deepen the current economic crisis. They call for:

- *Delaying price reform until inflation, imbalances in consumer markets, and the state budget deficit are under control.*

- *Continuing the guidance of enterprises by government ministries until competition is well established.*
- *Centrally controlling wages, investment, product mix, and managerial appointments during the transition period.*

Foot-Draggers

Agrarian Policy Commission Chairman Ligachev, Defense Council First Deputy Chairman Zaykov. Strongly suspicious of most aspects of a market economy, Ligachev and Zaykov advocate perfection of central planning and the command-administrative system to increase efficiency. To get out of the current economic crisis, they would reinforce such components of the old system as:

- *Central control of resource allocation decisions, wages, and prices.*
- *Communist Party oversight of the economy.*
- *Minor role for the private sector.*
- *Narrow income distribution, enforced by monetary and tax policies that soak the rich.*
- *Labor discipline campaigns.*

hospitals, and such unforeseen expenses as the cost of military operations in Azerbaijan and Armenia, it also will be difficult to keep government spending under control. We also believe that the crash campaign to build up the consumer sector while reducing investment in heavy industry could result in widespread bottlenecks and supply breakdowns that would aggravate the economy's already serious problems and have a detrimental impact on the country's growth potential over the longer term.

If the economy is stabilized by the end of 1992, the government plans to move ahead aggressively with market-oriented reforms, some of which will have

been introduced in limited sectors of the economy during the period 1990-92. Meanwhile, however, Gorbachev faces a fierce battle over the legislation needed to introduce these changes. He and his supporters see this legislation as vital to the success of *perestroika*, but the package has come under increasing attack from hardliners who see it as an assault on the basic tenets of socialism with disastrous consequences for the system. (

~~Confidential~~

0578

Confidential

[

]

L

J